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HALLIBURTON AND U.S. BUSINESS TIES TO IRAN

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERSTATE COMMERCE,
TRADE, AND TOURISM

OF THE

COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

APRIL 30, 2007

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ONE HUNDRED TENTH CONGRESS

FIRST SESSION

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HALLIBURTON AND U.S. BUSINESS TIES TO IRAN

MONDAY, APRIL 30, 2007

U.S. SENATE,
SUBCOMMITTEE ON INTERSTATE COMMERCE, TRADE, AND
TOURISM,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Subcommittee met at 2 p.m. in room SR-253, Russell Senate Office Building, Hon. Byron L. Dorgan, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF HON. BYRON L. DORGAN, U.S. SENATOR FROM NORTH DAKOTA

Senator DORGAN. We'll call the hearing to order. This is a hearing of the Interstate Commerce, Trade, and Tourism Subcommittee.

We are joined today by Senator Lautenberg and I've invited Senator Brown, who has legislation on the issue that is the subject of the hearing, to join us today. We will be joined by other colleagues as well.

Today's hearing is intended to examine the question of whether U.S. corporations should be able to do business in countries that are prohibited, countries with whom we have economic sanctions. Particularly in this case we will talk about Iran, but other countries are involved as well.

Should U.S. corporations be able to do business in these countries through their foreign subsidiaries? We have a number of countries that are subject at this point to sanctions, the countries of Cuba, Iran, North Korea, Sudan, Syria, for example.

This country has passed legislation dealing with a number of these countries. With the country of Iran, we have passed the Iran Sanctions Act. In a number of cases, we know from information that we have received and we know from public published reports that American-chartered corporations have done business through the exceptions that exist with a number of these countries.

Let me speak especially about the country of Iran for the moment, but it applies, as I understand it, to other countries as well.

When our country with a foreign policy objective establishes sanctions against another country, a prohibited country, suggesting that for foreign policy reasons we want to prohibit certain economic activity and certain connections between our country and theirs, in order to, through economic sanctions, apply some pressure and some injury to a country for behaving in a manner that is not consistent with the manner that we determine appropriate.

In circumstances where those companies are prohibited from doing business in those prohibited countries, however, companies are able to, in some circumstances, circumvent that by doing business through foreign subsidiaries, wholly owned or partially owned foreign subsidiaries.

In the case of Iran, for example, the U.S. law that we passed contains a loophole. The Iran Sanctions Act allows foreign subsidiaries of U.S. corporations to do business with Iran, so long as the subsidiary operates independently.

We have invited a number of witnesses today. One of the witnesses is the Halliburton Company. Halliburton is a U.S.-chartered corporation that has had some publicity about it doing business with the country of Iran through a foreign subsidiary.

In 2004, *60 Minutes* did a report that disclosed how Halliburton had a subsidiary in the Cayman Islands with headquarters in Dubai, which did hundreds of millions of dollars worth of business in the country of Iran.

In the *60 Minutes* testimony, excuse me, *60 Minutes* report, it appeared the Cayman Islands office was not much more than a mail drop and the Dubai office, which was supposed to operate independently of the Houston-based company, *60 Minutes* found that the Dubai subsidiary shared office space, phone and fax lines with a division of the Houston company.

Halliburton is by no means the only company that has had business ties to Iran or in other cases with other countries that have been prohibited countries by fashioning that business through a foreign subsidiary.

There's no question that, for example, with Iran there are substantial oil and gas reserves. There's no question that some corporations in this country would want to do business in Iran even though it is a prohibited country and so we understand why, under current law, some companies have decided it's in their economic interest to fashion foreign subsidiaries to do this kind of business.

The question that we pose at this hearing is; should this be the case. If we have a national goal here of establishing sanctions for good reason, should we allow those purposes of the sanctions to be undermined by U.S. companies creating foreign subsidiaries, or through foreign subsidiaries, doing business with a prohibited country? Does that not, in fact, undermine the very thing we're attempting to accomplish?

The State Department, again, continuing with Iran, says, "Iran is the most active state sponsor of terrorism"—says that "Iran has maintained a high profile role in encouraging anti-Israeli terrorist activity, rhetorically, operationally, and financially."

The Supreme Leader and the President of Iran has praised the Palestinian terrorist operations. Iran has provided the Lebanese Hezbollah and Palestinian terrorist groups, notably, Hamas and Islamic Jihad, funding, training and weapons. President Ahmadinejad recently hosted a conference aimed at denying the historical truth of the Holocaust.

I raise all this simply to say there are reasons, important and strong reasons that this country has decided to impose sanctions on countries, in this case, Iran. I could give a similar discussion about North Korea and Syria. Having said that, it is striking to me that

we have a law that would allow a U.S. company, through a foreign subsidiary, to do business with a prohibited country. Why on earth would we allow that?

So today's hearing is intended to ask several questions, first, should it be legal for subsidiaries of U.S. companies to do business with prohibited countries through a U.S. subsidiary? Senator Lautenberg is introducing legislation to close this loophole.

Second, should U.S. companies that decide to do business with a prohibited country, in this case, Iran, be eligible for Federal contracts?

Senator Brown has introduced a piece of legislation, titled the Restoring Integrity in Contracting Act of 2007. This bill would prohibit U.S. companies that do business with Iran, through U.S. subsidiaries and I believe it's through any prohibited country; I'd have to check on that, from getting Federal contracts.

Let me say I'm pleased that a representative of Halliburton has agreed to testify at this hearing. I would note that Halliburton has announced that it will no longer do any business with the country of Iran. That's a welcome statement, but Halliburton has been a major U.S. contractor and has done business with Iran for many years and we'll talk about that.

The first witness today will be Sherry Williams, Vice President and Corporate Secretary of Halliburton.

The second witness is William Thompson, the Comptroller of New York City. Mr. Thompson oversees \$80 billion in pension funds for all city workers, part of which was invested in Halliburton stock and that of other companies engaged in Iran and Mr. Thompson has been instrumental in raising these issues with corporations in a very important way.

And the third witness is Victor Comras. Mr. Comras retired from the State Department in 2001 and is now a practicing attorney and consultant on matters related to sanctions and embargos. He led the State Department's foreign policy trade control and sanctions programs for nearly a decade.

In 1999, Secretary Madeline Albright put him in charge of developing an international sanctions program on Serbia aimed at bringing down the Slobodan Milosevic regime. He also served as the State Department's point man on sanctions related to Iraq, Iran, Libya, Haiti, Cuba and North Korea.

I want to thank all the witnesses for appearing today and I want to just again say, the reason that we are holding this hearing is because many of us feel that we ought to answer a very important question. If this country has objectives by which it imposes sanctions on countries and creates a list of prohibited countries, should there be any circumstance in which a U.S.-chartered corporation would be doing business with those prohibited countries by creating a foreign subsidiary?

I think not, but currently the law allows that kind of end-run that I believe undermines our foreign policy objectives and we will, in this hearing explore whether the law should be changed and if so, how it should be changed.

[The prepared statement of Senator Dorgan follows:]

PREPARED STATEMENT OF HON. BYRON L. DORGAN,
U.S. SENATOR FROM NORTH DAKOTA

Today's hearing is intended to examine the question of whether U.S. companies should be able to do business in Iran through their foreign subsidiaries.

The State Department lists a handful of countries as state sponsors of terrorism, and U.S. law generally prohibits U.S. companies with doing business with those countries, whether directly or through their foreign subsidiaries.

But in the case of Iran, U.S. law contains a serious loophole. The Iran Sanctions Act allows foreign subsidiaries of U.S. companies to do business with Iran, so long as the subsidiary operates independently.

One of the U.S. companies that we know has had foreign subsidiaries do business with Iran is Halliburton. In 2004, *60 Minutes* did a report that showed how Halliburton had a subsidiary in the Cayman Islands, with headquarters in Dubai, which did hundreds of millions of dollars worth of business with Iran. The Cayman Islands office was little more than a mail drop. And the Dubai office was supposedly run independently of the Houston-based company, but the *60 Minutes* investigation found that the Dubai subsidiary shared office space, phone, and fax lines with a division of the Houston company.

Halliburton is by no means the only company that has had business ties to Iran in this fashion. But it was one of its most vocal in defending the propriety of this type of arrangement.

Vice President Cheney, who in the 1990s was Chairman of Halliburton, gave a speech to an energy industry conference in 1996, in which he said that sanctions were the greatest threat to Halliburton and other American oil companies trying to expand overseas. He said that "we seem to be sanction-happy as a government" and that "the problem is that the good Lord didn't see fit to always put oil and gas resources where there are democratic governments."

Indeed, in a 1998 speech at the Cato Institute, Vice President Cheney said that U.S. companies were "cut out of the action" in Iran because of the sanctions.

Well, there is no question that Iran has very substantial oil and gas reserves. But there is good reason why the United States makes it illegal for U.S. companies to do business with Iran.

For starters, according to the State Department, Iran is the "most active state sponsor of terrorism." The State Department says that Iran has "maintained a high-profile role in encouraging anti-Israeli terrorist activity—rhetorically, operationally, and financially." Supreme Leader Khamenei and President Ahmadinejad has praised Palestinian terrorist operations, and Iran has provided Lebanese Hezbollah and Palestinian terrorist groups—notably Hamas, and Islamic Jihad—with extensive funding, training, and weapons. President Ahmadinejad recently hosted a conference aimed at denying the historical truth of the Holocaust.

In addition, the Iranian regime is a country seemingly determined to acquire nuclear weapons. President Ahmadinejad has described the regime's quest for nuclear energy as an "unstoppable train."

So it is striking that U.S. companies would permit any of their foreign subsidiaries to do business with Iran, even if such an action were arguably legal under U.S. law.

Today's hearing is intended to ask several questions.

First, should it be legal for subsidiaries of U.S. companies to do business with Iran through a U.S. subsidiary? Senator Lautenberg has introduced legislation to close this loophole.

Second, should U.S. companies who do business with Iran be eligible for Federal contracts? Senator Brown has introduced S. 1004, the Restoring Integrity in Contracting Act of 2007, a bill that I have cosponsored. This bill would prohibit U.S. companies that do business with Iran through U.S. subsidiaries from getting Federal contracts.

I am pleased that Halliburton has agreed to testify at this hearing. I would note that after we announced our intention to hold this hearing, Halliburton announced that it would no longer do any business with Iran. That's a welcome announcement, but I think that given that Halliburton has been a major U.S. contractor and has done business with Iran for years, we still have a lot to talk about.

I should add that I expect that it is no easy step for Halliburton to appear before this Subcommittee, particularly given the fact that I have been critical of the company for its performance relating to contracts in Iraq. I do not intend to focus on the subject of Iraq contracting at this hearing, but rather to focus on Iran—and there is plenty to discuss on the subject of Halliburton and Iran.

The first witness, Sherry Williams is the Vice President and Corporate Secretary of Halliburton.

The second witness is William Thompson, the Comptroller of New York City. Mr. Thompson oversees the \$80 billion in pension funds for all city workers, part of which was invested in Halliburton stock and that of other companies engaged in Iran.

The third witness is Victor Comras. Mr. Comras retired from the State Department in 2001, and is now a practicing attorney and consultant on matters related to sanctions and embargoes. Mr. Comras led the U.S. State Department's foreign policy trade control and sanctions programs for nearly a decade. In 1999, Secretary Madeleine Albright put him in charge of developing an international sanctions program on Serbia aimed at bringing down the Slobodan Milosevic regime. He also served as the State Department's point-man on sanctions related to Iraq, Iran, Libya, Haiti, Cuba and North Korea.

I thank all the witnesses for appearing today. I should note that though Senator Brown is not a member of the Commerce Committee, I have invited him to join us today given his interest in these issues.

Let me call on Senator Lautenberg.

**STATEMENT OF HON. FRANK R. LAUTENBERG,
U.S. SENATOR FROM NEW JERSEY**

Senator LAUTENBERG. Thanks, Mr. Chairman, for holding this important hearing. It seems impossible to imagine that American companies would try to circumvent the law and do business with an enemy of ours, when we are actively at war, when we keep on losing troops there, in Iraq. So, I think this is a particularly opportune moment to discuss this.

I want to start off by talking about a young woman, who came from New Jersey, from Teaneck, New Jersey. Her name was Sarah Duker. She was studying in Israel and she and her fiancé were killed when their bus was blown up in Jerusalem in 1996. She was 22 years old.

The bus was found to have been blown up by Hamas. Hamas which receives funding and support from the Iranian government. Now without support from Iran, Hamas and other terror groups would not be able to carry out their attacks.

President Bush has said, "Money is the life blood of terrorist operations." So, it's stunning to me that some American companies, like Halliburton, have conducted business with terrorist states, like Iran, in defiance of the law that principles against it.

Now I was the first member of the Congress to investigate Halliburton's dealings with Iran. Some of what we uncovered was forwarded to the U.S. Office of Foreign Assets Control in the Treasury and has become part of their investigation.

We knew from a *60 Minutes* piece, that the Halliburton subsidiary had an office in Dubai and I asked my staff to learn all we could about the activities of that office. My staff then obtained copies of faxes between the Iranians and Halliburton in Dubai.

And we noticed that the Iranians addressed these faxes to specific people at Halliburton, the principal company. What is unclear is who these people were? Did they work for the Cayman Islands subsidiary or the parent company? Were they U.S. nationals?

One fax was addressed to Ian Gooch and another to a Mr. McIntyre. A third fax was to a Mr. Proctor. Now, I'm going to be asking Ms. Williams today to identify what company these people work for and what was their national background.

Another curious issue is Halliburton's January 2005 announcement that it would no longer do work in Iran. Now what Halli-

burton didn't publicize at the time, that just before their announcement, they signed an arrangement to deal with Iran to help drill their South Pars natural gas field.

And of course, since he had just inked a multimillion dollar contract with the Iranians, Halliburton's CEO, David Lesar, made clear that the company will have to honor their existing contracts with the Iranians, such as this South Pars deal.

Doesn't sound like an honorable act to me. In fact, 2 months after Mr. Lesar's announcement that the company was leaving Iran, NBC news sent out a video crew to Iran and caught an image of this. This was at Pars Gas Field in Iran and you see the name on the jacket, on the uniform of the fellow there, Halliburton.

Mr. Chairman, we've got to stop this behavior. That's why I re-introduced my bill, Stop Business with Terrorists Act last week. The bill will close the loophole that Halliburton has exploited in order to do business with Iran.

Simply put, Iran sponsors terrorists. Their terrorists have killed hundreds of Americans including, Sarah Duker, from New Jersey.

Companies that help terrorist states generate revenues that are helping fund terrorist operations. It's that simple.

In the Republican Congress, I attempted to pass my bill several times and we lost narrowly. In fact, on one occasion, we lost a roll call vote in the Senate by a single vote, 49 to 50 and I know that my amendment helped keep pressure on Halliburton to announce that they were getting out of Iran, but we can't be fooled.

Halliburton's not getting out of Iran because they are suddenly a good corporate citizen. They're not getting out of Iran because it's the right thing to do. Halliburton is getting out of Iran because they didn't like the bad publicity that they're getting, but they plan to come back when things cool down.

In fact, Halliburton CEO, David Lesar, said to the press, "If more of our customers go to Iran, we're going to return to this market." They can't wait to get out of that place. We can't wait much longer to remove ourselves from places of danger.

Mr. Chairman, we are trying to legislate on this issue because left to their own devices, companies like Halliburton will follow the money, not the morality and I thank you.

And I wanted to welcome Mr. Bill Thompson here. We've worked together in the past and look forward to continuing our work.

Senator DORGAN. Senator Brown.

**STATEMENT OF HON. SHERROD BROWN,
U.S. SENATOR FROM OHIO**

Senator BROWN. Thank you, Mr. Chairman, and thank you for the series of hearings that you're doing on trade and on our national and our economic security, like many of us, I certainly appreciate that.

In the post-9/11 world, U.S. economic policy can no longer be viewed in a vacuum of bottom lines and profit margins. When we open our borders to trade, as we should, we open them to homeland security threats.

It's imperative that Congress takes proactive steps to ensure that our homeland security needs are secured every bit as much as our economic well-being and it's imperative that the U.S. Government

stop rewarding businesses, as Senator Lautenberg said, that partner with state sponsors of terrorism, such as Iran. We cannot hold Iran accountable if U.S. companies help build its economy.

In 1995, my second term in the House of Representatives, Congress voted in support of the Administration's sanctions on Iran after that country was found to be in direct support of organizations that seek to harm the United States and our allies.

Over the past several years, Iran has increased its defense spending from \$4.2 billion in 2003 to \$6.6 billion in 2006. More importantly, in 2005, IAEA inspectors confirmed that Iran had resumed uranium conversion in order to develop nuclear technology and to fund these efforts; Iran has been working to develop its energy sector, the life blood of its economy and the major source of its revenue.

Oil exports account for roughly 80 to 90 percent of Iran's total export earnings, 20 percent of the total GDP and around half of its government's budget.

Iran's oil exports have increased 46 percent over the past 3 years to approximately \$47 billion last year despite U.S. sanctions.

While sanctions ban U.S. companies from engaging in the development of Iran's strategic energy sector, both foreign-based transnational corporations and subsidiaries of U.S.-based firms have supported Iran's development of its energy sector over the past decade.

Since 1999, foreign, direct investment in this sector has totaled more than \$100 billion. Experts note that these foreign investments have the potential to significantly increase Iran's energy production and obviously its revenue potential.

Over the past several years, while the U.S. has maintained sanctions on Iran, the Halliburton subsidiaries sold a reported \$30 million in oil extraction equipment to companies working in Iran's energy sector.

Notably a Halliburton subsidiary sold oil drilling equipment to help accomplish this objective assisting foreign firms in Iran's development.

It's been reported that Halliburton recently elected to cease their work in Iran and that is a step in the right direction, as Senator Lautenberg said. However, aiding in the development of a country that seeks to do America harm is never in America's best interest.

It's the responsibility of Congress to secure our Nation. It's the responsibility of our government to ensure that taxpayer's money in the form of government contracts should not go to corporations that seek to make a profit off rogue governments.

This should also be the case for companies that move their headquarters offshore. That's why Senator Dorgan and I have introduced legislation to deny government contracts to U.S. firms that do business with state sponsors of terrorism or that choose to be corporate expatriates and move offshore to avoid paying taxes.

The actions of these companies clearly undercut our efforts to stop the development of weapons of mass destruction and prevent the strengthening of terrorist organizations whose aim is to harm our country.

We shouldn't help enrich companies that are undermining our national security goals. It's as simple as that.

Thank you, Mr. Chairman, for the opportunity to join this subcommittee today.

Senator DORGAN. Senator Brown, thank you very much. I'm going to introduce the witnesses starting with Mr. Thompson.

Let me just again say that, the countries, those foreign countries that our State Department has identified as countries engaged in state-sponsored terrorism are countries against whom our government has taken certain actions, but a loophole exists allowing, in most cases, an opportunity for U.S. companies to, through a foreign subsidiary, continue to do business with countries that engage in state-sponsored terrorism and the question for this Congress, I think, is, should we allow that to continue?

The answer to me clearly, is no and so how do we stop it and what kind of action do we take?

Mr. Thompson has been engaged in this fight for some while. I first came to know him by reading about some of the work Mr. Thompson has done.

He is the Comptroller of the City of New York. He is the Chief Investment Advisor to the City's five retirement systems which manage over, I now see, \$100 billion in pension monies for the City, according to his testimony today and he has pressured corporations that they invest in, who do business with state sponsors of terrorism to change their policies and interestingly enough, has been quite successful taking a very unusual approach.

Mr. Thompson, thank you for coming down from New York and being willing to testify and telling us what you have been doing and how you see this issue. You may proceed.

**STATEMENT OF WILLIAM C. THOMPSON, JR., COMPTROLLER,
CITY OF NEW YORK**

Mr. THOMPSON. Thank you, Mr. Chairman. It is definitely a pleasure to be here, Senator Brown and definitely my friend, Senator Lautenberg, always a pleasure seeing you, sir.

I appear before you today to express my deep concern over the ability of American firms to circumvent the intent of sanctions law with respect to nations deemed to be sponsors of terror by our State Department.

As Comptroller for the City of New York, I am the Chief Investment Advisor to the City's five retirement systems, managing over \$100 billion in pension funds for the City.

Our responsibility to protect retiree assets requires a constant effort to pursue the highest standards of corporate responsibility and companies in which we invest. We've argued that when companies fail to consider the possible reputational or financial damage resulting from their operations whether directly or indirectly, they put their shareholders long-term investments at risk.

As Comptroller, I've pressured corporations we invest in that do business with state sponsors of terrorism to change their policies. New York City pension funds have taken on a number of U.S. corporate giants who are doing business with rogue nations, such as Iran and Syria.

Americans have been hearing for years that there's a connection between money and terrorism, but most didn't realize that their own investments, including their retirement nest eggs could be fi-

nancing regimes that condone and even encourage widespread violence and bloodshed.

It certainly came as a shock to New York City's police and fire fighters, who suffered combined losses of 366 men and women on September 11, 2001. Our police and fire department pension funds own some 400,000 shares in Halliburton Company, valued at roughly \$10 million.

Our other funds had an additional \$20 million invested in Halliburton. And Halliburton, as we now well know, was doing substantial business with Iran, a nation that had been identified by the United States Department of State as a state sponsor of terrorism.

Halliburton was not alone. Because of the loophole in Federal law, other Fortune 500 companies like, General Electric and ConocoPhillips were doing the same. How did this happen? Our government forbids American companies from doing business with or in countries it identifies as terror sponsors.

However, that ban does not apply to any foreign or offshore subsidiary, so long as non-Americans are nominally in control. This loophole was exploited by these companies.

In February of 2000, Halliburton opened an office in Tehran, under the name of Halliburton Products and Services Limited. It's a Cayman Island-based subsidiary. The alleged headquarters for Halliburton Products and Services Limited was in Abu Dhabi in the Persian Gulf, where it shared office space, fax and phone numbers with its United States parent.

Given this evidence, the notion that Halliburton's subsidiary was, in any way, independent was laughable. Halliburton owed an explanation to thousands of current and retired New York City police and firefighters, along with the rest of the members of the New York City pension system.

On their behalf, my office submitted a shareholder proposal to Halliburton in November of 2002 to review the potential financial and reputational risks of its operations in Iran. Similar resolutions were filed at that time with General Electric and ConocoPhillips.

When Halliburton agreed to such a review, we withdrew our proposal. Halliburton subsequently produced a report that, rather than addressing the broader risks inherent to doing business with rogue states, they offered a narrow legalistic explanation of how its operations fall within the bounds of the law.

They were clearly unwilling to address the broader implications of its activities in Iran for both their shareholders and the country.

In January of 2004, *60 Minutes* aired a segment on Halliburton that mentioned the efforts of my office and raised the public awareness of this issue dramatically. The show uncovered new information about Halliburton's subsidiary.

For instance, the Cayman Islands address is just a mailbox at a local bank and barely that. When mail arrived there it was re-routed to Halliburton headquarters in Houston.

The attention from the *60 Minutes* show led ConocoPhillips to announce within a month that they would not renew any current contracts in Iran by their foreign subsidiaries and cease any new business there.

As pressure mounted on Halliburton, we filed resolutions in December of 2004 with two additional companies, Cooper Cameron and Aon, to likewise cease their back-door dealings with Iran.

At the same time we applied pressure to another U.S. based company, Foster Wheeler, that's incorporated in Bermuda and therefore not subject to U.S. sanctions.

I'm pleased to say that only 3 months later in February of 2005, our campaign began to reap greater rewards as GE announced that they would let all current contracts in Iran by their foreign subsidiaries lapse and cease any new business. The next month, Cooper Cameron, affirmed to my office that its subsidiary would divest of any interest in its Iranian joint venture.

Within weeks, Halliburton likewise committed with us, not to pursue new business in Iran after current contracts by their subsidiary ended. In December of that year, Foster Wheeler also made a similar commitment and in January of 2006, the last firm in our campaign, Aon, announced it would cease its back-door operations in Iran.

Halliburton originally indicated that they'd be completely out of Iran by the end of 2007. I saw a few weeks ago that they announced that they are out for good.

Ultimately we have to close the loophole in Federal law that allows U.S. companies to act through foreign subsidiaries.

In past sessions of Congress, I've been proud to support language offered by Senator Lautenberg to do just that. The Lautenberg language, I believe is now contained, in Oregon Senator Gordon Smith's Iran Counter Proliferation Act of 2007. I support that legislation also and have just found out that the Senator has reintroduced it.

Senator Lautenberg introduced legislation last week, bill S. 1234, which would achieve the similar purpose and I'm very supportive of that piece of legislation also.

While the companies we identified as doing back-door business with state sponsors of terror have all signed letters of agreement with our offices to end that practice, other companies could choose to engage in such dealings tomorrow, or the next day.

Only the passage of tough legislation can ensure that no new firms can take such measures. In the meantime we've begun the process in my office of reviewing how we may be able to influence firms with no ties to the United States and are not subject to SEC shareholder proposal rules and we're meeting with our trustees now to try and work on that.

After the events of last summer, in which Israeli cities and towns were targeted by Hezbollah militia with missiles that many believe were supplied by Iran and Syria, our efforts to curtail the ability of these nations and others to engage in acts of terror are more important than ever before.

And at a time when Iran has stated its intention to develop a nuclear program, we can't ignore the risks proposed by that regime, whether we're talking about the development of nuclear weapons in Iran or the export of weapons, technology and terrorism abroad.

For the safety and security of the United States and other peace-seeking nations around the world, institutional investors have to continue to insist that the firms they invest in not attempt to wig-

gle out of sanctions against state sponsors of terror by acting through subsidiaries not beholden to American law.

And again, Mr. Chairman, I'd like to thank you and the members of this subcommittee and the other members of the Senate for convening this panel on this critically important topic and for giving me the opportunity to present testimony today. Thank you.

[The prepared statement of Mr. Thompson follows:]

PREPARED STATEMENT OF WILLIAM C. THOMPSON, JR., COMPTROLLER, CITY OF NEW YORK

Good afternoon, Chairman Dorgan, and honorable Members of the Subcommittee on Interstate Commerce, Trade and Tourism.

I appear before you today to express my deep concern over the ability of American firms to circumvent the intent of sanctions law with respect to nations deemed to be sponsors of terror by our State Department.

As Comptroller for the City of New York, I am the Chief Investment Advisor to the City's five retirement systems, managing over \$100 billion in pension monies for the City.

Our responsibility to protect retiree assets requires a constant effort to pursue the highest standards of corporate responsibility at companies in which we invest.

We have argued that when companies fail to consider the possible reputational or financial damage resulting from their operations—whether directly (through their hiring policies, for example) or indirectly (through policies of the government with which they contract)—they put their shareholders' long-term investments at risk.

As Comptroller, I have pressured corporations we invest in that do business with state sponsors of terrorism to change their policies. . . . New York City pension funds have taken on a number of U.S. corporate giants who were doing business with rogue nations such as Iran and Syria.

Americans have been hearing for years that there's a connection between money and terrorism, but most didn't realize that their own investments, including their retirement nest eggs, could be financing regimes that condone and even encourage widespread violence and bloodshed.

It certainly came as a shock to New York City's police and firefighters, who suffered combined losses of 366 men and women on September 11, 2001.

Our Police and Fire Department Pension Funds owned some 400,000 shares in Halliburton Co., valued at roughly \$10 million. Our other funds had an additional \$20 million invested in Halliburton.

And Halliburton, as is now well known, was doing substantial business with Iran, a nation that had been identified by the U.S. State Department as a state sponsor of terrorism.

Halliburton was not alone. Because of a loophole in Federal law, other Fortune 500 companies, like General Electric and ConocoPhillips, were doing the same.

How did this happen? Our government forbids American companies from doing business with or in countries it identifies as terror sponsors.

However, that ban does not apply to any foreign or offshore subsidiary, so long as non-Americans are nominally in control. This loophole was exploited by these companies.

In February 2000, Halliburton opened an office in Tehran under the name of Halliburton Products and Services, Ltd., its Cayman Islands-based subsidiary.

The alleged headquarters for Halliburton Products and Services Ltd. is in Abu Dhabi in the Persian Gulf, where it shares office space, fax and phone numbers with its U.S. parent.

Given this evidence, the notion that Halliburton's subsidiary is in any way independent of its parent is laughable.

Halliburton owed an explanation to thousands of current and retired New York City police and firefighters, along with the rest of the members of the New York City pension system.

On their behalf, my office submitted a shareholder proposal to Halliburton in November 2002 to review the potential financial and reputational risks of its operations in Iran. Similar resolutions were filed at that time with General Electric and ConocoPhillips.

When Halliburton agreed to such a review, my office withdrew the proposal. Halliburton subsequently produced a report that, rather than addressing the broader risks inherent to doing business with rogue states, offered a narrow, legalistic explanation of how its operations fall within the bounds of the law.

Halliburton was clearly unwilling to address the broader implications of its activities in Iran for both its shareholders and the country.

In January 2004, the television news program *60 Minutes* aired a segment on Halliburton that mentioned the efforts of my office and raised the public awareness of this issue dramatically.

The show uncovered new information about Halliburton's subsidiary. . . . For instance, the Cayman Islands address is just a mailbox in a local bank—and barely that. When mail arrives there, it is rerouted to Halliburton headquarters in Houston.

The attention from the *60 Minutes* show led ConocoPhillips to announce within a month that they would not renew any current contracts in Iran by their foreign subsidiaries and cease any new business there.

As pressure mounted on Halliburton, my office filed resolutions in December 2004 with two additional companies—Cooper Cameron (now Cameron International) and Aon—to likewise cease their back-door dealings with Iran.

At the same time, we applied pressure to another U.S.-based company, Foster Wheeler, that is incorporated in Bermuda and therefore not subject to U.S. sanctions.

I am pleased to say that only 3 months later, in February 2005, our campaign began to reap greater rewards as GE announced that they would let all current contracts in Iran by their foreign subsidiaries lapse and cease any new business.

The next month Cooper Cameron affirmed to my office that its subsidiary would divest of its interest in an Iranian joint venture. Within weeks, Halliburton likewise committed with us not to pursue new business in Iran after current contracts by their subsidiary ended.

In December of that year, Foster Wheeler made a similar commitment, and in January of 2006 the last firm in our campaign, Aon, announced that it would cease its back-door operations in Iran.

Halliburton originally indicated to my office that it would be completely out of Iran by the end of 2007. A few weeks ago they announced that they are now out for good.

Ultimately, we must close the loophole in Federal law that allows U.S. companies to act through foreign subsidiaries. . . . In past sessions of Congress, I have supported language offered by Senator Frank Lautenberg to do just that.

The Lautenberg language is now contained in Oregon Senator Gordon Smith's "Iran Counter-Proliferation Act of 2007." I support that legislation and encourage you all to work for its passage.

While the companies we identified as doing back-door business with state sponsors of terror have all signed letters of agreement with our office to end that practice, other companies could choose to engage in such dealings tomorrow or the next day.

Only the passage of the Smith bill will ensure that no new firms will take such measures.

In the meantime, my office has begun the process of reviewing how we may be able to influence firms with no ties to the United States and are not subject to the SEC shareholder proposal rule.

I am in the process of initiating a conversation with the Trustees of the five New York City pension funds on this matter.

After the events of the summer, in which Israeli cities and towns were targeted by the Hezbollah militia with missiles that many believe were supplied by Iran and Syria, our efforts to curtail the ability of these nations and others to engage in acts of terror are more important than ever before.

And at a time when Iran has stated its intention to develop a nuclear program, we cannot ignore the risks posed by the Ahmadinejad regime—whether we are talking about the development of nuclear weapons in Iran or the export of weapons, technology and terrorism abroad.

For the safety and security of the United States and other peace-seeking nations around the world, institutional investors must continue to insist that the firms they invest in not attempt to wriggle out of sanctions against state sponsors of terror by acting through subsidiaries not beholden to American law.

I want to thank Chairman Dorgan and all the Members of the Subcommittee on Interstate Commerce, Trade, and Tourism for convening a panel on this critically important topic and for giving me the opportunity to present testimony here today.

It has been my very great pleasure to share with you the experiences of my office and I look forward to our continued work together on this very important issue.

Thank you very much.

Senator DORGAN. Mr. Thompson, thank you very much. We appreciate your being here and your testimony.

Next, we will hear from Sherry Williams, who is the Vice President and the Corporate Secretary of Halliburton Company. I believe that you are coming to us from the Houston office, is that correct?

Ms. WILLIAMS. Yes, I am.

Senator DORGAN. Welcome and thank you for traveling to Washington to come to this hearing. You may proceed.

**STATEMENT OF SHERRY WILLIAMS, VICE PRESIDENT/
CORPORATE SECRETARY, HALLIBURTON COMPANY**

Ms. WILLIAMS. Chairman Dorgan and Members of the Subcommittee, thank you for the opportunity to testify here today about the work done by a subsidiary of our company in Iran.

As you've heard, my name is Sherry Williams and I'm the Vice President and Corporate Secretary of Halliburton Company. Halliburton was founded in 1919 by Earl P. Halliburton and he grew with the industry to build Halliburton into what it is today, the second largest oil field services company in existence.

Over the years, Halliburton has remained focused on the Western Hemisphere. Today 70 percent of our business is conducted in Canada, the United States and South America. Many of these fields, however, are maturing and reaching a state where they are no longer economically viable. For these reasons the company has grown its business in the Eastern Hemisphere as well.

Work by Halliburton in the Middle East region is not a new phenomenon. The company has maintained international offices for more than 80 years. Over time, Halliburton broadened its business opportunities across the region through foreign offices and currently has over 300 subsidiaries.

One such independent foreign subsidiary of the company, Halliburton Products and Services Limited or HPSSL, has done work in Iran. HPSSL formerly known as Otis International Limited was incorporated in the Cayman Islands in 1974 and was registered to do business in Dubai in 1978.

Dubai has been HPSSL's principal place of doing business since well before the imposition of Iranian sanctions in May 1995. At the time of the implementation of Iranian sanctions and the executive orders in 1995, three highly qualified, major American law firms provided advice to Halliburton on the issue of whether independent foreign subsidiaries were impacted by the unilateral economic sanctions.

In May 1995, OFAC hosted a meeting of many attorneys and some company representatives concerning advice about the sanctions law. The advice that came out of that meeting was that independent foreign subsidiaries, such as HPSSL, were not within the bar of the sanctions to the extent that they were independent of the U.S. parents in undertaking and execution of their business.

Nevertheless, Halliburton announced in January 2005 that it would not take any new contracts in Iran. Thus, HPSSL has not entered into any new contracts or projects with Iran since that date. Existing contracts needed to be completed or the company would have been sued for breach of contract.

The last of the contracts that existed at that time was completed this year. During HPSL's activities in Iran, decisions to undertake business were made by HPSL Managers and Boards of Directors. Halliburton Company did not direct or facilitate HPSL's activity. None of the HPSL Directors, Managers, or employees is a U.S. citizen or a permanent resident alien.

The decision-making authority for HPSL on a day-to-day basis, thus resided with local foreign management. Although Halliburton has grown its business opportunities in the Eastern Hemisphere, it is clear that the company has more to do, more work to do, to remain competitive.

Our biggest competitor, Schlumberger, a French company, is extremely active in the region and in other places where we are prohibited from operating due to sanctions.

Where Halliburton is barred from performing in a country or leaves that country due to economic sanctions, our international competitors pick up the work that we leave behind.

Schlumberger has recently stated that it intends to continue work in U.S.-sanctioned countries and Schlumberger is also listed as a New York Stock Exchange Company.

Let me conclude by noting that Halliburton has been a proud American company for nearly 90 years and intends to remain just that. We recently announced that our CEO, David Lesar, has established an office in Dubai. The press coverage of that fact was incorrect, leaving many with the mistaken impression that Halliburton is moving its headquarters out of the United States.

The company will remain headquartered in Houston. It will remain a Delaware incorporated corporation subject to all laws of the United States and the Securities and Exchange Commission and Halliburton will remain a Houston company that is proud to be one of Houston's best places to work according to the *Houston Business Journal*. Thank you all very much.

[The prepared statement of Ms. Williams follows:]

PREPARED STATEMENT OF SHERRY WILLIAMS, VICE PRESIDENT/CORPORATE
SECRETARY, HALLIBURTON COMPANY

Chairman Dorgan and Members of the Subcommittee on Interstate Commerce, Trade, and Tourism, I want to thank you for the opportunity to testify here today about the work done by a subsidiary of our company in Iran. Your staff has indicated that you are concerned about the activities of subsidiaries in certain parts of the world and whether those efforts should be limited by U.S. laws.

My name is Sherry Williams, and I am Vice President and Corporate Secretary of Halliburton Company. Halliburton was founded in 1919 by Earl P. Halliburton who lived the American dream. He worked the oil fields as a young man until he discovered a revolutionary way to cement oil wells, and he grew with the industry to build Halliburton into what it is today: the second largest oil field services company in existence.

Over the years, Halliburton has remained focused on the Western Hemisphere. Today, 70 percent of our business is conducted in Canada, the United States and South America. Many of these fields, however, are mature and reaching a state where they are no longer economically viable. According to some recent statistics, two-thirds of the known petroleum and gas reserves in the world are in the Eastern Hemisphere. For these reasons, the Company has grown its business in the Eastern Hemisphere as well.

Work by Halliburton in the Middle East region is not a new phenomenon. The company has maintained international offices for more than 80 years. More specifically, Halliburton has had offices in the Middle East for more than 60 years, begin-

ning in 1946 with a project for Arabian-American Oil. The following year, 1947, marked the Company's first business in Kuwait.

Over time, Halliburton broadened its business opportunities across the region through foreign offices and currently over 300 subsidiaries. One such independent foreign subsidiary of the company, Halliburton Products and Services Limited or HPSL, has done work in Iran. HPSL, formerly known as Otis International, Ltd. (OIL), was incorporated in the Cayman Islands in 1974 and was registered to do business in Dubai in 1978. Dubai has been HPSL's principal place of doing business since well prior to the imposition of the Iranian Sanctions of May 1995.

We believe it to be well established that owned or controlled foreign subsidiaries of U.S. companies are not subject to the U.S. trade sanctions against Iran. Prior to 1986, The Office of Foreign Assets Control's (OFAC) sanctions programs covered U.S. companies, as well as foreign companies that were owned or controlled by U.S. companies. Today, only the Cuban sanctions program still has such broad coverage. For programs instituted since 1986, such as the Iranian Sanctions, OFAC's sanctions programs have clearly excluded foreign subsidiaries of U.S. companies from their scope, but they have continued to prohibit their U.S. parent companies from facilitating or otherwise engaging in activities of those subsidiaries involving sanctioned countries. In other words, with specific reference to the Iranian Sanctions, mere ownership or control by a U.S. company is not enough to destroy a foreign subsidiary's independence, and OFAC has never required U.S. companies to divest their holdings in foreign subsidiaries merely because they do business with sanctioned countries. Instead, the rules look to actual or required involvement by a U.S. parent in a foreign subsidiary's operations to determine whether that foreign subsidiary has the requisite authority and ability to operate independently. The sanctioning of foreign subsidiaries was the topic of at least one piece of legislation in 1995, S. 277. While there was discussion of this legislation, it was never enacted.

At the time of implementation of Iranian sanctions and executive orders in 1995, three highly qualified major law firms provided advice to Halliburton and other companies now included within Halliburton to consider the issues of whether independent foreign subsidiaries were impacted by the unilateral economic sanctions. In May 1995, OFAC hosted a meeting of many attorneys, and some company representatives. The advice that came out of that meeting was that independent foreign subsidiaries, such as HPSL, were not within the bar of the sanctions to the extent that they were independent of U.S. parents in the undertaking and the execution of such business. The law firms also determined that the sanctions did not apply to wholly-owned subsidiaries, such as HPSL, that are of foreign incorporation and subject to decision-making by non-U.S. citizens.

Nevertheless, Halliburton Energy Services announced in January 2005, that it would take no new contracts in Iran. Thus, HPSL has not entered into any new contracts for projects in Iran since that date. Existing contracts needed to be completed or the company would have been successfully sued for breach of contract. The last of the contracts that existed at the time of the announcement were completed this year.

During HPSL's activity in Iran, decisions to undertake business were made by the managers and the Board of Directors. Halliburton did not direct or facilitate HPSL's activity. None of the HPSL directors, managers, or employees are U.S. citizens or permanent resident aliens. The decision making authority for HPSL on a day-to-day basis thus has resided entirely in local management.

Before it ceased doing business in Iran, HPSL had about 133 employees. As of 2004, HPSL's employees included 2 Algerians, 1 Bangladeshi, 11 U.K. citizens, 1 Canadian, 10 Egyptians, 16 Filipinos, 40 Indians, 13 Indonesians, 33 Iranians, 2 Pakistanis, 3 Palestinians, 1 Portuguese, and 1 Sudanese. There were 41 employees who lived and worked in Iran full-time. Thirty-three of those local employees were Iranian and 8 were third-country nationals.

Although Halliburton has grown its business opportunities in the Eastern Hemisphere, it is clear that the company has more work to do in order to remain competitive. On March 14, 2007, the *Wall Street Journal* published an article concerning our CEO's move to Dubai. The article, entitled "Halliburton Plays Catch Up", made a strong case that our competition is more deeply entrenched in the Eastern Hemisphere than we are, and that the Company will need to "hustle" to meet the competition. Two of our biggest competitors, Schlumberger and Weatherford, are both extremely active in that region and in other places where we are prohibited from operating due to sanctions. When Halliburton is barred from performing in a country or leaves that country due to unilateral economic sanctions, it does not mean that the available work in those countries ceases. Rather, the work continues, but our international competitors pick up the work we leave. Schlumberger and

Weatherford have stated they intend to continue to work in U.S.-sanctioned countries. Both companies are listed on the New York Stock Exchange.

It should be of some concern that non-U.S. companies are gaining control of energy assets in countries where U.S. industry cannot work, making it far more difficult for us to reach our national goal of energy security. It is also troubling that our competition does not always perform with as much respect for the environment as Halliburton does. We use literally hundreds of new technologies to find petroleum assets, image them, extract them, and transport them in an environmentally safe, inexpensive manner.

Let me conclude my remarks by noting that Halliburton, which employs 45,000 people in nearly 70 countries around the world, has been a proud American company for nearly 90 years and intends to remain just that. The Company is incorporated in Delaware and its principal executive office is in Houston, Texas. We recently announced that our CEO, Dave Lesar, has established an office in Dubai. The press coverage of that fact was incorrect, leaving many with the mistaken impression that Halliburton is moving its corporate headquarters out of the United States. That is simply not the case. The company "Halliburton" remains headquartered in Houston, where it is proud to be one of Houston's "Best Places to Work" according to the *Houston Business Journal*.

Senator DORGAN. Ms. Williams, thank you very much. Finally, we will hear from Mr. Victor Comras, retired from the U.S. State Department in 2001, now a practicing attorney and consultant on matters relating to sanctions and embargos. Mr. Comras, you may proceed.

**STATEMENT OF VICTOR D. COMRAS, ESQ., ATTORNEY/
CONSULTANT, SPECIAL COUNSEL, EREN LAW FIRM**

Mr. COMRAS. Thank you, Mr. Chairman. Thank you for inviting me here to give you my views on the application of U.S. sanctions against Iran.

I've watched closely as the United States has sought to engage other countries to join with us in applying increased pressure on Iran to comply with international counter-proliferation and counter-terrorism norms. This has been a very slow and painful process.

One can understand that there's a certain reluctance to put sanctions on Iran because of the dislocation that that might cause to the world oil market which could drive the price of oil well above current levels, but one must also weigh the enormous strategic and security risks posed by a nuclear armed Iran that supports international terrorism.

Every day the international community stands down, only serves to strengthen Iran's resolve to forge ahead making further confrontation increasingly inevitable and at an ever increasing cost.

Since 1995, we have employed our own sanction laws and regulations to seek to impair Iran's ability to acquire weapons of mass destruction and to reduce the resources available to them to fund terrorism activities. These sanctions have slowed them down, but we have not stopped them. For that we need broader international sanctions to bring home to Iran's leaders that such conduct will not be tolerated.

The recent sanctions measures adopted by the Security Council fall well short of these objectives. They've made little impact, if any, on Iran's leaders and they do little more than freeze the overseas assets of a few dozen Iranian individuals and entities associated with their uranium enrichment program.

They do almost nothing to limit Iran's trade or access to foreign investments, loans or financial and development assistance. They've left on the table billions of dollars of trade deals and investments which undercut the international communities' stated objective of getting to Iran, getting Iran to change course.

They demonstrate that key countries can continue to lack the political will necessary to face up to Iran's challenge and this signal has been received loud and clear by the current Iranian regime.

That brings us back to what we can and should do to protect our national security and foreign policy interests. I think it is very important that the Congress and the Administration are now reviewing our domestic sanctions against Iran to see how they might best be used and leveraged to apply pressure on Iran and those doing business with Iran.

Let's start with our own business activities. Our own trade with Iran has grown considerably since President Clinton imposed trade sanctions in 1995, from less than \$500,000 in two-way trade in 1996, to over \$242 million in 2006. In addition, foreign subsidiaries of some 35 different U.S. companies continue to remain active in Iran.

This includes such companies as Halliburton, Baker Hughes, Smith International and General Electric. They get around the sanctions because the regulatory guidelines here are quite murky. The regulatory standards that apply to foreign subsidiaries have differed from one sanctions program to another.

The Cuban-North Korean embargos, for example, do apply to foreign subsidiaries of U.S. companies. These sanctions were imposed under the Trading With the Enemy Act but more recent sanctions including the sanctions on Iran were imposed by Presidential executive orders issued pursuant to IEEPA.

These sanctions reach out only to those foreign subsidiaries which are deemed owned and controlled by a U.S. person. So the issue has become whether or not there's a real and effective management separation between the foreign subsidiary and the U.S. parent.

Halliburton's position is that its foreign subsidiary working in Iran, Halliburton Products and Services Ltd., is managed and run completely independent from the U.S. Halliburton parent.

Nevertheless a public outcry against this sort of activity has led Halliburton and other companies, including GE, to announce that they would no longer solicit new business in Iran. This is an interesting declaration on their part given the fact that they have long claimed to exercise absolutely no corporate control over these subsidiaries.

Iran's banking sector is notorious for its failures to comply with international anti-money laundering, fraudulent and corrupt practices, and counter-terrorism financing norms. Yet, Iranian banks continue to have broad access to, and to network through, the international finance system.

The U.S. Treasury Department has recently begun to scrutinize these ties and they have put the international banking community on notice that keeping and servicing customers that the United States has identified as terrorists or proliferators could have seri-

ous consequences for their ability to do business in the United States.

There is also a growing disinvestment movement in the United States which is targeting international firms doing business with countries like Iran that support terrorism and proliferation. This is beginning to have an effect.

Several companies and international banks have recently indicated their intentions to withdraw from Iran. Others have cutoff Iranian business in dollars. We need to follow up on these kinds of measures.

Overall, U.S. business with Iran remains relatively small compared to the booming \$26 billion two-way trade that has developed between Iran and Europe over the intervening years. Iran's fledgling commercial classes become very reliant on this trade and it is this very commercial class that provides the greatest number of employment opportunities in Tehran and Iran's other urban centers.

Actions that threaten to constrict this trade can have a considerable impact on the Iranian government and on the economy and this, I think, is essential for us to pursue. This is why it's so important that we continue to press our European friends in other countries trading with Iran to take the nuclear threat seriously and to use their own trading leverage with Iran to bring it to a halt.

The Iranian sanctions target foreign companies that make substantial new investments in the Iran's oil and gas sector. That sector accounts for 80 percent of Iran's foreign earnings and over 50 percent of the government's operating budget. Despite its provisions, no sanctions have been applied to any of the huge investments now being made to support expansion of Iran's energy sector.

Many argue that imposing sanctions on companies in third countries would be counter-productive to U.S. business interests and would harm our ability to convince these countries to cooperate further with us vis-à-vis Iran.

But there's good reason to believe, Mr. Chairman that today in the current atmosphere of growing concern with Iran's nuclear program, the threat of such action might just lead companies in Europe, Japan and elsewhere and their governments to act more intently in pressing Iran to change course. Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Comras follows:]

PREPARED STATEMENT OF VICTOR D. COMRAS, ESQ., ATTORNEY/CONSULTANT,
SPECIAL COUNSEL, EREN LAW FIRM

Thank you, Mr. Chairman for inviting me to share my views on the application of U.S. sanctions measures against Iran. I have watched closely as the United States has sought to engage other countries to join with us in applying increased pressure on Iran to comply with international counter-proliferation and counter-terrorism norms. This has been a very slow and painful process, and it is regrettable that so little has been accomplished. The international community continues to remain reluctant and seriously divided when it comes to taking meaningful steps to convince Iran to change course.

One can understand a certain amount of reluctance and caution on the part of many countries when it comes to imposing sanctions on Iran, given Iran's importance as a supplier to the world oil market. There are legitimate concerns that sanctions might cause dislocation in the world market which could drive the price of oil

well above current high levels. But, one must also weigh the enormous strategic and security risks posed by a nuclear-armed Iran that supports international terrorism. Every day the international community stands down only serves to strengthen Iran's resolve to forge ahead making further confrontation increasingly inevitable, and at an ever increasing cost.

This situation has placed a considerable burden on the United States, which many years ago chose to impose unilateral sanctions on Iran to demonstrate our approbation and concern with Iran's international misconduct. And it has imposed a considerable burden on U.S. companies. These U.S. measures sought to impair Iran's potential to develop chemical, biological, and nuclear weapons, and to reduce resources available to the Iranian government to fund terrorism. These objectives are still far from being realized, for we have, so far, failed to convince others in the international community to follow this lead, and to also adopt measures that will bring home to Iran's leaders that their conduct will not be tolerated.

I have long advocated using well-considered targeted, economic and political sanctions to dissuade Iran from pursuing its irresponsible nuclear programs. By well-considered I mean sanctions tailored to achieve specific objectives by having a significant impact on those individuals or entities, and/or specific segments of the targeted country's economy, that are likely to influence the course of conduct in question. I believe that the credible threat or use of such sanctions offers us the best chance of convincing Iran to change course without having to engage in costly and dangerous military action. I do not believe that the current United Nations sanctions program can achieve these objectives.

The recent sanctions measures adopted by the Security Council fall well short of the measures long advocated by the United States. They have had little, if any, impact on Iran's leaders and do little more than freeze the overseas assets of a few dozen Iranian individuals and entities associated with Iran's uranium enrichment program. The most important measure adopted by the United Nations, so far, has been to ban transactions with Iran's fifth largest bank, Bank Sepah, and to cut that bank off from the international financial network. Bank Sepah has been closely involved in funding Iran's missile development program. This is the kind of action that needs to be adopted and replicated on a much broader scale. Beyond that, the U.N. resolutions merely call upon all countries "to exercise vigilance and restraint" when it comes to supplying sensitive nuclear, military and dual-use equipment to Iran, or allowing key Iranian military and nuclear industry officials to visit and travel within their countries. Each country remains pretty much free to decide for itself which sensitive military equipment and technology they should no longer provide. These are not obligatory measures.

The U.N. resolutions have purposely stayed away from limiting commercial ties with Iran or restricting investments, loans or financial and developmental assistance. They leave Russia free to pursue an ambitious multibillion dollar Iran trade promotion program and to support Iran's Russian-built nuclear reactor at Bushehr. They also leave on the table a substantial number of signed or still to be negotiated oil and gas development deals, including a potential \$10 billion investment by Royal Dutch Shell and the Spanish oil company Repsol YFP to develop Iran's South Pars field; the construction of a multi-billion LPG export plant by Total; and a \$20 billion investment by SKS Ventures of Malaysia to produce national gas in Iran's Golshan and Ferdow fields. Chinese companies have also been active in lining up lucrative energy contracts with Iran. China's state-owned oil trading company, Zhuhai Zhenrong Corporation, has signed a 25-year deal to import some 110 million tons of liquefied natural gas (LNG) from Iran. And China's state-owned oil company, Sinopec, signed an agreement in October 2004 that allows China to import a further 250 million tons of LNG from Iran's Yadavaran oilfield over a 25-year period. This huge deal also envisages substantial Chinese investment in Iranian energy exploration, drilling and production as well as in petrochemical and natural gas infrastructure. Total Chinese investment targeted toward Iran's energy sector could exceed some \$100 billion over 25 years.

These are precisely the types of investments and business activity that the Iran Sanctions Act, and the preceding Iran-Libya Sanctions Act, sought to discourage so long as Iran continues to violate key international commitments that threaten international peace and security. These major investment projects undermine U.S. objectives to get Iran to change course, and they eliminate any chance for the current U.N. sanctions to influence Iran's leaders. They demonstrate that key countries continue to lack the political will necessary to face up to Iran's challenge. And this signal has been received loud and clear by the current Iranian regime.

Iran will only change course if and when its leadership is convinced that the international community will, in fact, take the steps necessary to seriously impact Iran's leaders and Iran's very vulnerable economy. Such an impact on Iran's econ-

omy, Iran's leaders know, would, in turn, seriously threaten the stability and durability of their regime.

That brings us back to what we can and should do to protect our own national security and foreign policy interests. I think it is important that the Congress and the Administration are now reviewing our domestic sanctions against Iran to see how they might best be used and leveraged to apply pressure on Iran.

I am pleased that this process has already led to changes in policy and has already produced some results.

Treasury Under Secretary Stuart Levey recently informed the Senate Banking Committee of the Treasury Department's new high level outreach program directed at the international private sector. Senior Treasury Department officials, he said, have met with more than 40 banks worldwide to discuss the threat Iran poses to the international financial system. The message was clear. By keeping and servicing customers that the United States has identified as terrorists or proliferators, the banks risk facing American public scrutiny and regulatory action that could have a serious impact on their ability to do business with the United States. An increasing number of international banks, financial institutions, and corporations are taking this message seriously and are now beginning to limit their exposure re Iran. Several international banks have already indicated their intentions to withdraw from Iran completely. Others have cutoff Iranian business in dollars. We must follow up on these kinds of measures.

There are a number of additional steps we can take to maximize the leverage capabilities of the various sanctions measures that we have adopted.

Following President Clinton's imposition of trade sanctions against Iran in 1995, annual both-direction trade with Iran fell to less than \$500,000. But, by 2006, this combined trade had again grown to over \$242 million (\$85 million in exports to Iran and \$157 million in imports, principally Iranian nuts, dried fruits, carpets, and caviar). This is still quite small compared to the booming \$26 billion two-way trade that has developed between Iran and Europe over these intervening years. Iran's fledgling commercial class has become very reliant on this growing trade. And it is this very commercial class that provides the greatest number of employment opportunities in Tehran and Iran's other urban centers. Sanctions that threaten to constrict this trade could have a considerable impact on this commercial class, placing further distress on Iran's vulnerable economy and high urban unemployment. And this in turn will have an impact on Iran's leaders.

Ironically, Iran, which is such a major exporter of oil and gas, is, itself a major importer of gasoline and other finished petroleum products. With a daily consumption of more than 18 million gallons of gasoline Iran must now import some 180 to 200 million gallons of gasoline per month. Rising petroleum prices have already been the cause of civil unrest, and gasoline shortages could have a significant impact on local business activity and put increased pressure on Iranian leaders to alter course. Royal Dutch/Shell is now serving as an advisory partner with Iran in an assessment project to upgrade Iran's refining capacities. This is the kind of activity that should be halted.

The Iran Sanctions Act targets Iran's energy, oil and gas sector, and calls for U.S. sanctions to be imposed on foreign companies making investments of more than \$20 million in 1 year in Iran's energy sector. The President is required to impose at least two out of a menu of six sanctions against overseas companies violating these guidelines. These secondary sanctions can be waived by the President, however, if the President certifies that waiving the sanctions is important to the U.S. national interest. Despite continued, and broad investment in Iran's energy sector, these sanctions have never been invoked.

Many argue that imposing sanctions on companies in third countries would be counter-productive to U.S. business interests, and would harm our ability to convince these countries to cooperate further with us vis-à-vis Iran. But, there is also good reason to believe that, in the current atmosphere of growing concern with Iran's nuclear program, the threat of such action might lead Europe, and European companies doing business in both Iran and the United States, to act more intently in pressing Iran to change.

We have already used third-party sanctions against companies in third countries that have violated the Iran Nonproliferation Act. This has included companies in Austria, Belarus, China, India, Macedonia, North Korea, Russia, Spain, Taiwan, UAE, and Ukraine. These measures may well have helped convince the international community to move forward on the U.N. sanctions that do target the sale of sensitive equipment and technology to Iran's military and uranium enrichment programs.

U.S. sanctions regulations have prohibited U.S. persons from doing business directly or indirectly with Iran since May 1995. This ban also covers brokering trans-

actions on behalf of Iran, or engaging in any transaction with a foreign entity where there is reason to know it is intended for Iran. But what about the dealings of foreign subsidiaries of U.S. firms with Iran? Here the guidelines are murky. The regulatory standards applied to foreign subsidiaries have varied over the years and under different sanctions and export control programs. The Cuba and North Korean embargos, for example, do extend to foreign subsidiaries of U.S. companies. These sanctions were implemented under the Trading with the Enemy Act (TWEA) which provides broad enough authority to cover foreign subsidiaries. But, more recently imposed sanctions, including the current Iran sanctions, are based on Presidential Executive Orders issued pursuant to the International Economic Emergency Powers Act (IEEPA). The authorities under that act are more circumspect. This is because IEEPA sanctions apply only to "United States persons," and the Act defines "United States person" as "any United States citizen, permanent resident alien, entity organized under the laws of the United States (including foreign branches), or any person in the United States." In line with this definition, the prohibitions in Executive Order 12959 of May 6, 1995, issued by President Clinton pursuant to IEEPA reach only to foreign subsidiaries "owned and *controlled*" by a U.S. person, or otherwise used by a U.S. person to "evade, avoid, or violate" any of the prohibitions set forth in the executive order. The issue here is whether or not there is a real and effective management separation between the U.S. parent and foreign subsidiary, and whether or not the foreign subsidiary is actually being used by the U.S. person to "evade or avoid" the prohibitions against its doing business with or in Iran. These are difficult factual issues to determine.

On January 11, 2005, Iran announced publicly that it had just concluded a contract with the U.S. Company, Halliburton, and an Iranian company, Oriental Kish, to drill for gas in Phases 9 and 10 of South Pars. Under the deal, a Halliburton subsidiary registered in the Cayman Islands, but doing business out of Dubai, Halliburton Products and Services Limited (HPSL), was awarded a subcontract from the Iranian firm Oriental Kish to provide some \$30 million to \$35 million worth of engineering services per year through Oriental Kish. HPSL had also previously been engaged, since 1995 in several other offshore oil and gas drilling and related engineering projects in Iran. In addition to its Dubai headquarter, the company reportedly also maintained an operational office in Tehran.

Halliburton's position is that the transactions involving HPSL do not violate U.S. sanctions since Halliburton does not exercise direction or control of HPSL's activities. They point out that Halliburton Product and Services has no American employees; that its 5-person board of directors consists of four British citizens and a Canadian citizen, but no Americans; and that the "day-to-day" management and decision-making responsibility at HPSL resides with the Management Director (who is a British citizen) and other local management, all of whom reside in Dubai. Nevertheless, revelation of this Iran project led to a public outcry.

In response, Halliburton subsequently announced that all Halliburton employees would be withdrawn from Iran and that it would end its pursuit of future business in Iran, apart from the ongoing Oriental Kish deal.

Halliburton is not the only U.S. corporation with foreign subsidiaries working with and in Iran. Some of its main competitors in the oil field industry, including Baker Hughes, and Smith International, also have foreign operations there. General Electric's Canadian, Italian and French subsidiaries have also long been engaged in business deals with Iran, and there is a Swiss-owned Caterpillar dealership in the heart of Tehran. Some 35 foreign subsidiaries of different U.S. companies reportedly are now operating in Iran. Several, including GE have decided to follow Halliburton's example. They have announced they also will no longer seek new business deals with Iran. This is an interesting declaration given the fact that they have long claimed to exercise absolutely no corporate control over these subsidiaries.

Iran's banking sector is notorious for its failures to comply with international anti-money laundering, fraudulent and corrupt practices, and counter-terrorism financing norms. Yet, Iranian banks continue to have broad access to, and to network through, the international financial and banking sectors. The U.S. Treasury Department recently began to scrutinize ties of foreign banks with branches in the United States with Iran. These actions are being taken ostensibly to ensure that U.S. branches are not used to facilitate exchanges or transfers for Iranian banks and other entities. The Treasury Department recently fined the Dutch bank ABN Amro some \$80 million for failing to report the processing of financial transactions involving Iran's Bank Melli. And since January 2007 bars U.S. banks, including U.S. branches of foreign banks, from facilitating any dollar transactions for banks dealing with Iran's state-owned Bank Saderat or Bank Sepah.

I believe additional Iranian banks should be added to the Treasury Department's designated list and that further actions should be taken to isolate these banks and

to assure that all transactions stemming from, or destined to or through Iranian banks be subjected to close regulation and scrutiny. Such action would also bring home to Iran a significant cost for the irresponsible policies it is pursuing.

As noted above, convincing foreign subsidiaries of U.S. companies to withdraw from Iran may provoke some reactions from their parent countries, especially in Canada and Europe, who remain very sensitive to what they consider U.S. attempts to reach extra-territorially into their bailiwick. But, our task now must really be to convince these countries to join with us in putting greater pressure on Iran by cutting back their business dealings with Iran.

There are some positive signs that the EU leaders are finally coming to the realization that the EU's carrot-sweet negotiating approach toward Iran must be strengthened by the addition of sticks. EU Foreign Ministers agreed last week to move beyond the paltry Security Council measures and to impose a more extensive asset freeze, travel ban, and arms embargo on Iran. But, these measures still fall short of impacting Iran's vulnerable economy.

We must continue to press our European friends and allies, and Japan to take even firmer measures. This should include getting their companies and financial institutions to refrain from entering into new deals or making further capital investment commitments in Iran until Iran complies with the U.N.'s non-proliferation resolutions. Beyond that, we must use our combined economic clout with Europe and Japan to retain pressure on Russian and China not to undercut these sanctions measures.

Thank you, Mr. Chairman.

Senator DORGAN. Mr. Comras, thank you very much for being here. In your testimony, Mr. Comras, you said that there are "some 35 foreign subsidiaries of different U.S. companies reportedly now operating in Iran." What's the source of that number?

Mr. COMRAS. I take that number from public press reports, Mr. Chairman.

Senator DORGAN. Mr. Thompson, how many companies do you think have foreign subsidiaries now operating in Iran, how many U.S. companies?

Mr. THOMPSON. We're not exactly sure. I mean, what we have done was to take a look and see where substantial business was being done and that's where we targeted companies as opposed to, say a bank that had a small branch in Iran, we didn't want to necessarily overreact, but what we had tried to do was to see where the substantial business was being done.

So, we're not exactly sure, at this point, how many companies are, you know, doing real business through subsidiaries of American companies.

Senator DORGAN. Is the loophole on foreign subsidiaries a loophole that applies with Cuba, Mr. Comras?

Mr. COMRAS. There is no similar loophole in the Cuba embargo. Foreign subsidiaries are covered. In many cases, OFAC has issued specific or general licenses to cover the activities of some of these overseas foreign subsidiaries, but they are covered by the sanctions themselves.

Senator DORGAN. How about North Korea?

Mr. COMRAS. Same with North Korea, Mr. Chairman.

Senator DORGAN. Is it the case that companies that decide, particularly I'm talking about American companies now, but the companies that come from other countries with whom we are allied to try to bring Iran, for example, into a different circumstance with respect to nuclear production?

Is it the case that nuclear weapons production, I should say, is it the case that doing business with Iran by any of these corpora-

tions, especially U.S. corporations, enhances and strengthens their economy? Mr. THOMPSON.

Mr. THOMPSON. Absolutely. It goes without saying. As I said, whether it is American-based companies through their subsidiaries, whether it's foreign-based companies, these days that are doing direct business, all of these activities enhance their economy and undermine the efforts to sanction countries that support terrorism.

Senator DORGAN. Does it then, based upon what President Bush has said and what we know from intelligence reports and the public dialogue, does it help terrorism?

Mr. THOMPSON. Absolutely.

Senator DORGAN. It helps fund terrorism?

Mr. THOMPSON. Yes, it does.

Senator DORGAN. So, in this case American corporate activity, as well as corporate activity by our allies that are investing in the country of Iran are, you believe, furthering the interest of terrorism?

Mr. THOMPSON. Yes, Mr. Chairman, we do.

Senator DORGAN. I believe, Mr. Comras, you perhaps described Royal Dutch/Shell, \$10 billion. Who went through a list of those?

Mr. COMRAS. Yes, in my written statement. Yes, Mr. Chairman, there are a number of large proposals on the table and investments on the table including Total building an LPG facility, including Shell helping Iran come up with the possibility of developing new refineries to deal with its own requirements that it imports finished products today.

With respect to China, which has an enormous amount of investment underway and an estimated \$100 billion worth of investment that could result over the next 10 to 20 years.

Senator DORGAN. Do either of you know whether there's a way for anyone to get a list or to obtain a list of American charter corporations doing business with Iran through a foreign subsidiary?

Mr. THOMPSON. I would believe that there is such a list. I'm trying to remember, one of the individuals that we have worked with, last name, Robinson.

Mr. COMRAS. Roger Robinson.

Mr. THOMPSON. Roger Robinson. Roger has been very helpful in originally putting together a list and we believe that Roger would be able to come up with a larger list and then you can cull from that list, American companies that are doing business and we can make sure that we get him and put him in touch with your office.

Senator DORGAN. Ms. Williams, I didn't quite understand, is Halliburton still doing business, but has announced that it will not do business in the future beyond this contract, or are all of your contracts now completed and you are no longer doing business through a foreign subsidiary in the country of Iran?

Ms. WILLIAMS. All of our contracts are completed and we no longer have any further operations. There are some wind-down procedures that are happening, but that is not active operational work.

Senator DORGAN. In 2005, Mr. Lesar, the CEO, said that when he announced that Halliburton would no longer do business in Iran, "if more of our customers go there, we will return to this market." Has that changed?

Ms. WILLIAMS. Well, it has to change because once we pulled out of the Iranian market; we are prohibited from going back in under the sanctions law.

Senator DORGAN. Ms. Williams, your testimony, I believe, is that it was perfectly OK for Halliburton to do business in Iraq through a foreign corporation, excuse me, Iran.

Let me say that again, your testimony was that it was perfectly proper for Halliburton to do business in the country of Iran, through a foreign subsidiary because it was allowed by law and I don't dispute that.

Now you're promising never to do it again. Tell me the mindset of the corporation. What have you gone through to move from a position that this is perfectly appropriate. We want to do it. It's profitable to now, apparently, agreeing with Mr. Thompson and Mr. Comras, that it is in fact, strengthening a terrorist state by doing business in a country like Iran.

Ms. WILLIAMS. What I would say is that our decision to pull out of Iran was based upon a number of factors and no one of them was the driving force in that. It was based upon the fact that it's very difficult to do business in Iran. It was based upon the fact that our business there had been diminishing over a long period of time and a number of other factors.

And, so, when we decided to pull out, we had information from our legal team that the decision would create a barrier to re-entry and we were comfortable with that from a corporate perspective.

Senator DORGAN. Was there any discussion about whether, from a values standpoint, that doing business through a foreign subsidiary with a prohibited country like Iran, was in fact, helping the terrorists?

Ms. WILLIAMS. I was not a part of those discussions, Senator, so I cannot answer that question.

Senator DORGAN. Let me ask about the Cayman Islands subsidiary. As you know, *60 Minutes* did the piece, went to the Cayman Islands and you indicated the Cayman Islands subsidiary was created in 1974, I believe.

Ms. WILLIAMS. Yes, it was.

Senator DORGAN. Long ago. They went to the Cayman Islands and discovered there was no one there, apparently just a mail drop and then went to Dubai and discovered that the office in Dubai was an office where there was a sharing of telephones and faxes and so on with the Houston company and raised a lot of questions that were never really satisfactorily answered for me.

Tell us about that. What can you tell us about a *60 Minutes* report that goes to Dubai and incidentally, my understanding is that 100 percent of the profit of the Cayman Islands subsidiary came from the activities in Dubai and doing business with the country of Iran.

Tell me about the response to the *60 Minutes* report that they go to Dubai and it appears from that office that it is just an extension of the Houston office.

Ms. WILLIAMS. I have not seen the *60 Minutes* report, but what I can tell you is that the Cayman Islands registration is very similar to, I would say, the registration of our parent company which

is registered in Delaware when we have no active business office in Delaware.

So, the registration in the Cayman Islands is perfectly appropriate under the law and it's not different than how we've registered other subsidiaries.

As far as the appearance that the Dubai office, I think that *60 Minutes*, based upon the transcript that I reviewed and I did not see the report, they simply are incorrect in the assumptions that they made.

The HPSL office operates in a completely separate location in Dubai. The Al-Moosa Tower location that they went to is a registered office of a subsidiary with none of the HPSL managers; none of the Board of Directors, none of the work from HPSL took place at that location.

Senator DORGAN. Ms. Williams, you heard the testimony of the other two witnesses and clearly some companies that are chartered in foreign countries will continue to do business in Iran and we will attempt to find ways with our allies to shut that down, but if we are not successful, one could probably make the case that an American company is prohibited from doing business in Iran and yet their competitors are not.

Let me ask what Halliburton's position would be if next week, for example, during a mark-up of this Commerce Committee, Senator Lautenberg would offer as an amendment his piece of legislation which I would certainly support.

Would Halliburton be supportive of legislation that would shut down the loophole, or close the loophole?

Ms. WILLIAMS. The Company has not taken any position on that, but what I can tell you is that we have followed U.S. law. We will continue to follow U.S. law and we believe that it is the role and the appropriate role of this body to set U.S. foreign policy and we will continue to completely comply with that, whatever Congress decides that policy is.

Senator DORGAN. Mr. Comras, do you believe that having American corporations use foreign subsidiaries to invest in the country of Iran is assisting in the sponsorship of terrorism?

Mr. COMRAS. Yes, I do, Mr. Chairman. I think that it's somewhat ironic and difficult to understand why we place a burden on American companies with respect to sanctions and then go ahead and allow foreign subsidiaries to continue to compete with companies that don't create these foreign subsidiaries.

If our intent is to cut off our own companies from dealing with Iran and other terrorism-supporting states, it seems quite logical that we would want that to extend as far as possible to anyone that we could influence, including using our corporate influence and our overall policies to dissuade others, including foreign subsidiaries from undercutting the very objectives that our sanctions were put in place for.

Senator DORGAN. Interestingly, if the foreign subsidiary is not controlled by the domestic corporation, how does the foreign subsidiary, when domestic policy and domestic politics in this country say, "wait a second, you're doing business with terrorists, for God's sake. You're financing terrorism."

How does a foreign subsidiary, all of a sudden, make a decision on behalf of the domestic company, if it is in fact, independent? Mr. Thompson, could you answer that?

Mr. THOMPSON. Difficult to answer, I mean.

Senator DORGAN. What do you think?

Mr. THOMPSON. It's clear that those subsidiaries, whether they are independent or not, and then all too often and in all too many cases, they aren't really independent, should not be doing business in those countries. It is as simple as that.

Looking at what the parent can and can't do, it is just a back-door attempt to do business with these countries and I believe that legislation should close it off, period.

Senator DORGAN. Ms. Williams, you're here. There are other companies that could be sitting in that seat, who have done business in Iran through a loophole that, in fact, has existed.

You're quite correct that you have not violated the law with respect to intending to do business through a foreign subsidiary. I'm not so sure that Halliburton has been on the right side of the line with respect to the way that foreign subsidiary was established.

For example, didn't HPSL in Dubai use the same telephone number as Halliburton's Dubai office?

Ms. WILLIAMS. Senator, I would have to reiterate that that was, the telephone number listed in the telephone book is actually incorrect and we have checked into that.

That was a registration office that was there because at one point we were changing the names from Otis International Limited to HPSL. The HPSL office, where all of its operations and its employees were, was a completely separate location and we would be happy to provide more detailed information on that to you or your staff.

Senator DORGAN. Is it the case that 100 percent of the profits of your Cayman Islands subsidiary came from Dubai, from the foreign subsidiary in Dubai?

Ms. WILLIAMS. Yes, because the Cayman Islands is a registration for HPSL and their operations office is in Dubai.

Senator DORGAN. And that profit came exclusively from activities in Iran?

Ms. WILLIAMS. The profit for that subsidiary came exclusively from Iran operations, yes.

Senator DORGAN. Let me just say this. Well, first of all, Ms. Williams, I appreciate your coming to testify, but I do think that, we're holding this hearing because I think there's something dreadfully wrong.

There is something fundamentally wrong and when I read what Mr. Thompson has been engaged in for some long while now, it occurred to me that we ought not to have to ask Mr. Thompson, who manages \$100 billion of pension assets in New York City, to carry the burden of changing something that is wrong with respect to U.S. law. If we're going to have sanctions against prohibited countries then we ought not to have exceptions to it and we ought not have someone going around the sanctions through a loophole that says we still want to do business with a terrorist state.

No company should be doing that, that is chartered in this country and we need to pass legislation, post haste, to address it.

So, I appreciate my colleagues being here. Senator Lautenberg. Senator LAUTENBERG. Thanks very much, Mr. Chairman. One of the things I wanted to straighten out, Ms. Williams, is you said that the building, the Al-Moosa Tower, was no longer a place of occupancy by any Halliburton facility.

Ms. WILLIAMS. No, Al-Moosa Tower is currently still a location for a Halliburton company. It is not the location for HPSL.

Senator LAUTENBERG. Well, I hold here a fax, which I'm happy to share. It's addressed to Halliburton Products and Services, Al-Moosa Towers, Dubai. Now, they were working out of that building.

Ms. WILLIAMS. There was a registration for that building, yes.

Senator LAUTENBERG. Halliburton Products and Services did at some point work out of that building?

Ms. WILLIAMS. Senator, I'm not sure about that answer, but I'd be happy to provide it later.

Senator LAUTENBERG. I would appreciate it because it directly contradicts your statement.

Do you know the names Ian Gooch, Mr. Proctor, Mr. McIntyre, are they familiar names to you?

Ms. WILLIAMS. No, they are not.

Senator LAUTENBERG. Well, this table that was introduced introduces their names as recipients of the request for contract from the Iranian company and they were addressed as such because they represent Halliburton and they wanted to be in touch with them.

Now, so you don't know whether they work for Halliburton or not?

Ms. WILLIAMS. Senator, I have never seen those faxes and I do not recognize those names. However if I could get copies of the names and faxes from your staff I would be happy to do an appropriate investigation into that.

Senator LAUTENBERG. We'll give them to you, Ms. Williams.

See, I wasn't sure if the Chairman reviewed process. Let us be clear. Profits earned by a subsidiary, wholly owned by Halliburton would eventually accrue the Halliburton's profit picture.

Ms. WILLIAMS. I'm sorry, is that your question?

Senator LAUTENBERG. Yes.

Ms. WILLIAMS. Yes, it would.

Senator LAUTENBERG. They would. OK. So Halliburton would be the beneficiary of these operations, assuming that they were profitable, fair to say?

Ms. WILLIAMS. Any operations earned from any subsidiary does, you know, is accounted for in our books, yes.

Senator LAUTENBERG. I wonder if there's any challenge to conscience if the rules are such that the company can't do business directly, but if the structure is developed such that profits pass through.

Is there no responsibility, I don't want to put you on the spot, I think you're in a very delicate position, and I admire your willingness to be here, but when I see the sleight of hand that goes into creating this subsidiary and we see a picture of a Halliburton employee in an Iranian situation and we get these requests for proposals addressed to Halliburton employees and that we don't know who these people are.

We know that they're Halliburton employees and they're stationed in Dubai and I just wondered whether you knew who they were.

Now, something else that you said, Ms. Williams that is that you used a Delaware registration as a comparison, the consequences of a Delaware license for a company to do business, really it may hurt a particular state or community but it certainly doesn't imperil American lives and when you talk about well, if we're not there, competition will take the business. At what point do we say that we ought not to be doing things that endanger our people, simply because competition will be there.

There were other companies doing business in Libya and we didn't worry about them doing business there when we refused to do business there. So, I don't frankly agree with you with the reasoning that you presented.

Your CEO, David Lesar, announced in January 2005, we're getting out of Iran, however, just before that we all heard that a multimillion dollar deal with the Iranians was there to help them drill for natural gas.

Do you see any conflict between signing the contract with the Iranian company with the subsidiary and then making a decision that they would get out of any further agreements? I think the Chairman asked questions alluding to that situation.

Ms. WILLIAMS. Senator, in an effort to fully answer your question, can I consult my colleagues on one thing about your question?

Senator LAUTENBERG. Please, please do.

Ms. WILLIAMS. I would like to give you the most complete answer possible so I appreciate you letting me get a clarification.

Senator LAUTENBERG. Absolutely.

Ms. WILLIAMS. What you're referring to is a proposal that started in negotiations in early 2004, which was over a year before Mr. Lesar made the announcement that we were pulling out of Iran. It was a consortium deal in which the portion that we were bidding on in 2004 was very small.

What I can tell this committee is that contract was never signed. It never came to fruition and so at the time, Mr. Lesar made the announcement there was no contract that we had signed to continue with that deal.

Senator LAUTENBERG. Is Halliburton still under investigation by the U.S. Attorney in the Southern District of Texas for possible violations of terror sanctions law?

Ms. WILLIAMS. I think that the investigation is ongoing. We have responded to all of the inquiries from the Department of Justice and we did that as late as 2005 and for the past 24 months we've heard no additional information from them. We have cooperated fully.

Senator LAUTENBERG. Halliburton employees testified, did they testify before the Grand Jury?

Ms. WILLIAMS. At this point I do not have that information, but I would be happy to get it and provide it to you.

Senator LAUTENBERG. Please, let's see if they received subpoenas in this case.

Did the decision in January 2005 have anything to do related to the U.S. Attorney's criminal investigation of Halliburton's activities?

Ms. WILLIAMS. The decision in 2005 was based upon a number of factors. I was not participating in those conversations so I can not tell you with any certainty of whether that issue was discussed, but I do know that there were a number of issues that went into the final decision on the withdrawal from Iran.

Senator LAUTENBERG. Mr. Thompson, you said that, I think it was the fire department pension.

Mr. THOMPSON. Fire and police department pension funds.

Senator LAUTENBERG. Police and fire, owned some 400,000 shares in Halliburton Company.

Mr. THOMPSON. Yes, at that point.

Senator LAUTENBERG. Were you aware of the fact that the Vice President of the United States had more than that on option, over 400,000 shares on option?

Mr. THOMPSON. I was not, Senator.

Senator LAUTENBERG. Yes, he was. Do you know what the final exercise date is on those options?

Mr. THOMPSON. I don't.

Senator LAUTENBERG. I do. It's 2009, after its full service to the U.S. Government, all the way through there.

Mr. Thompson, given your work and research, do you think that companies will stop doing business with terrorist nations on their own or is legislation needed?

Mr. THOMPSON. Unfortunately, it's become clear over a period of years that while things may be legal, it doesn't mean that they are ethical and I believe that unless you close the loophole, companies will continue to attempt to do business in back-door fashions.

Senator LAUTENBERG. Thank you very much. Mr. Chairman, thank you.

Senator DORGAN. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman. Thank you all for being here. I appreciate your willingness to be here and your candor with us.

Ms. Williams, I look at this; I'm not a member of this Committee. I'm new to the Senate. I was in the House for 14 years and I'm just sort of amazed by how all of this has unfolded in the last 5 years or so.

Your company is one that has had billions of dollars in government contracts. Your company has made settlements with the government, I believe because of overcharges on services to our troops, often with non-delivery to the troops, often under performance on those contracts. Your company has had millions of dollars in contracts with terrorist states building up their economy.

The Vice President of the United States, former executive of your company, draws a pension three times what the average American, middle class American earns in a year. Now you pretty much say and the Republican Congress has pretty much done nothing about any of this, now you say three things today.

You say well, the company was a subsidiary. You say we, the company acted perfectly appropriately under the law and then you said besides the French do it too. The French company seems even

worse. Do you or do other top executives at Halliburton really understand why the American public gets so angry about this?

Ms. WILLIAMS. I would say that we, the company has been under the spotlight for a long time. We see what's printed in the press about us and we listen to what our own employees have to say and I think that from a purely sympathetic standpoint we can look and say, based upon the information that the American public gets that, you know, they have a right to their opinions and to voice their opinions about our company in any way they see fit.

Senator BROWN. Based on the information the American public gets, but the information is factual, huge government contracts, overcharging of those contracts, non-delivery and under performance in those contracts.

When it affected American troops in the field, the Vice President, getting a huge pension from your company, dealing with terrorist states, all of those things are not just, you almost say it dismissingly, that's just what the American public hears. Well, those are facts that the American public hears.

In your response to Chairman Dorgan about why you sort of moved out of Iran finally, albeit, reluctantly. None of those answers had anything to do with patriotism or anything to do with the values that I think our country holds dear.

They were all sort of business decisions and I understand your business, but I understand that most businesses in our country operate at least under some modicum of values and patriotism and I just have been disappointed in all of those answers, but, more so, I appreciate your courage being here. I don't appreciate the company's behavior, the company for which you work.

I guess I'll shift to Mr. Comras for a moment. You said that North Korea and Cuba are included in the Trading with the Enemies Act. Should we, as we figure all this out, working on Senator Lautenberg's bill, the bill that Senator Dorgan and I have introduced, how do we improve the current sanction regimes?

Do we put it under the Trading with the Enemies Act? Is that something we should expand? Should we do it through other kinds of legislation? Give us and you too, Mr. Thompson, your recommendation, specifically on what we should do.

Mr. COMRAS. I think there are many courses of action that can be taken, including, to clarify, under IEPPA, the coverage and the definition of U.S. persons and how that might relate to another line that is also in that Act. As well as in the Executive Order about avoiding or evading the sanctions, which is also illegal for a U.S. person to do by using a foreign entity.

So, there are ways to look closely, even at the existing authorities and to reinterpret them, to clarify them and various measures and acts in the legislature, but I do think it is a loophole that does need to be dealt with.

In part the loophole does have a rationale. That rationale, some of us recall from the time of the gas pipeline, when some foreign countries were very upset with what they viewed as the extra-territorial extension of U.S. authorities.

And so we do walk something of a line here, but I think in the current context of Iran, it is very essential that we get to that line and that line, I think, clearly does include foreign subsidiaries of

U.S. companies where the profits are going to the U.S. company and where it is, ultimately, the corporate decision of the parent rather than the subsidiary with respect to what its conduct is, and I think we see that in the parent being able to call it off and saying that no longer will these subsidiaries do this kind of business.

So, I think that in this kind of context we should make it clear that a foreign subsidiary that is owned and that is corporately controlled by the parent should be covered, not a question of day to day management, but day to day who can make that ultimate decision and if that ultimate decision does, as in fact it does, reside here in the United States by a U.S. person then I think it should be obligatory on them to fall in line with the same measures as any other U.S. corporation would fall into.

Senator BROWN. Mr. Thompson, anything to add to that?

Mr. THOMPSON. Times have changed. The world has changed and the fight against terrorism is one that now goes into corporate board rooms around this country and around the world.

We need to close the loopholes now and opportunities for companies to do business in any fashion in any U.S.-based company, whether it is directly or indirectly, those loopholes should be closed.

We need to choke the flow of dollars off to some of these regimes and some of these countries. Those dollars come back to haunt us, and are used against us in other ways. So we need to close those loopholes now and if it is in any way possible.

Senator BROWN. Thank you. Thank you, Mr. Chairman.

Senator LAUTENBERG. Mr. Chairman, may I?

Senator DORGAN. Senator Lautenberg.

Senator LAUTENBERG. Thanks. If I could indicate something here that in the Halliburton directory, they list KBR as a division of the American company, a division. They list an address in Al-Moosa Tower, tenth floor and they have a designee. No, that's the address, I'm sorry, on the tenth floor.

There's some conflict here as to whether or not the testimony was accurate as to whether or not there was a company, a Halliburton office and as well as the subsidiary office, fully owned subsidiary office that was in this building and I think you said in your testimony there was no such thing.

Ms. WILLIAMS. There was a registration office and the HPSL had a separate office, however, as I indicated earlier, Senator, I'll be happy to track down this information and provide it to you so you'll be clear on those issues.

Senator LAUTENBERG. I would appreciate it. Thanks, Mr. Chairman.

Senator DORGAN. Ms. Williams, I started to say a bit ago, you are not the only corporation. You represent the Halliburton Company. You're a senior executive there. Other corporations could have sat in your chair having to answer the same questions.

You happened to be here and you know yourself that Halliburton has become a rather high profile company with respect to contracting and a whole range of issues and I've been involved in raising those questions. I appreciate your coming to be willing to answer questions.

I must tell you, I personally think that corporate decisions, with respect to these issues, have to contain more than just a business sense, just the numbers, just the issue of profitability.

They also, it seems to me, if they are given life by a corporate charter in the country and that is what gives life to a corporation, they also must, it seems to me, answer the question, is this the right thing to do? Is this what our company wants to be doing and I think, not just with respect to your corporation, but a good many others, too many others.

They apparently decided, you know what, profit really trumps the other questions or perhaps they won't even ask the other questions and I think Mr. Thompson has.

Mr. Thompson has started a national discussion and a role as an activist, an equity shareholder. We want to ask these companies various questions. The thing that I don't understand, very frankly, one of the reasons I wanted to hold this hearing—In addition to the fact that my colleague, Senator Lautenberg has introduced legislation, my colleague, Senator Brown has. I have never quite understood how it could be that a foreign subsidiary would not necessarily have to be under the control of a parent corporation.

The definition of that, the way it is made to sound by the companies that are doing business with Iran are well, we're doing business with Iran, but we're doing business through this company over in Dubai or wherever and we have no control over that.

Well, of course, that's absurd on its face. The parent company will always have control, otherwise it wouldn't have the foreign subsidiary. So, it is the creation of a fiction here that has allowed some companies to do business with a terrorist state, a state that is, with respect to Iran, sponsoring acts of terrorism, funding acts of terrorism.

And I personally believe it's long past the time for us to say we're going to stop it. We won't rely on Mr. Thompson to stop it. We won't rely on companies to decide by themselves that we will stop it. We'll just say it's a matter of law.

We're going to put an end to this fiction. No more trading with the enemy. No more creating foreign subsidiaries for the purpose of engaging in a business for a purpose of profit in the country of Iran.

And so that's why we hold this hearing. I've not been able to reconcile any plausible rationale for this fiction that somehow foreign corporations are not controlled by the domestic corporate entity that owns them.

Does anyone want to respond to that? Is there any way for me to understand that allowing the creation of a corporate structure that is a foreign subsidiary, does not in fact, belong to the parent company and is, in fact, controlled by the parent company? Can anybody disabuse me of that fiction?

Senator LAUTENBERG. May I add, Mr. Chairman, that would violate the laws of the country as well. The structuring of the corporation, is a device that, obviously, is used to the detriment of our country and as a matter of fact, I think, Mr. Comras, you said it correctly. What does it do to encourage other countries to pay attention to this? We lose our credibility and we lose our standing at the same time.

Senator DORGAN. Let me say, first of all, I welcome the announced decision by Halliburton that it's no longer going to do business in Iran through a foreign subsidiary.

I did not know until you indicated to me now that that business has virtually ceased, except for as you indicate, some clean-up details of a previous contract, but at this point that it ceased.

My understanding is that other corporations have made similar announcements and I welcome those announcements as well because I think that moves us in the right direction and I think, perhaps, it does say to other companies that are still involved in doing business in Iran, they might ought to take a really close look at it because there's a lot of concern here in the U.S. Congress and with the American people that this is not good business.

It is, in fact, undermining an important national goal and that is to try to prevent the country of Iran from acquiring nuclear weapons, prevent the country of Iran from sponsoring terrorism, from funding terrorist activities.

That's a noble national goal that we have that, I think, is undermined by those companies that will still be doing business in the country of Iran.

I intend to work with my colleagues and others to move legislation. We won't be having these discussions in the future because we will have cut off the opportunity to do that.

Mr. Thompson, you wanted to say something?

Mr. THOMPSON. Just, Senator, that I would agree that there is attention that has been focused in the last few years that it has forced a number of companies to cease doing business in Iran and in other nations like Syria.

It is important to pass legislation because when that attention focuses in other places, if we don't pass legislation, there will be other companies who will fill the void through subsidiaries and come back and attempt to do business.

So the passing of legislation and strong legislation that will prevent it, period, is the way to go.

Senator DORGAN. Mr. Thompson, thank you for your work. Mr. Comras, thank you.

Senator LAUTENBERG. Just one last thing, Mr. Chairman. And that is to quote Mr. Lesar when he said to the press and you've confirmed this, Ms. Williams. "If more of our customers go to Iran, we will return to this market."

So the only guide is whether or not there's business there it has little to do with the law, or ethics of this decision.

Senator DORGAN. Ms. Williams, I think you've responded to that earlier in one response. Did you want to respond again to that issue?

Ms. WILLIAMS. I would just say that is the statement Mr. Lesar made; however, we have always followed the law. We will continue to do so and whatever this body decides is the United States applicable law and the United States foreign policy. We will follow that.

Senator LAUTENBERG. I hope you get to be the CEO of Halliburton. We would be better off. Thank you.

Senator DORGAN. To follow up on that point because I was going to say thank you for coming and giving the company credit for say-

ing, "we're leaving and we're not going to be doing business in Iran."

If his statement 2 years ago was a statement if that's where the business goes, we will be back. My assumption has been their most recent statement is we have decided we're not going to do business with Iran and my assumption was that statement was made because they understand that is not something that they want the company to be involved in for the reasons we've described today.

I don't quite understand your answer because you will do what the law requires, but the law would, unless changed, the law would allow you to continue to do business in Iran. My hope would be that your statement, the corporate statement, is that you have decided that is not the good thing, a wise thing or in concert with this country's interests to do.

Ms. WILLIAMS. Senator, what I would say to that is when we made the decision to pull out of Iran, we recognized that we would not be able to go back into that, or go back into that country even under the current law.

So, as it stands our decision to pull out of Iran was one that was made with the understanding of the consequences that the law would not allow us to go back in. So, the current law would not allow us to go back in.

If you all decide to change the law in some way, we will follow that law and continue to do so.

Senator DORGAN. Well, Ms. Williams, thank you for coming, others would not. We appreciate your corporation sending you to represent their views.

Mr. Thompson, thank you for your continuing work. I think you've stimulated a great deal of interest in the Congress on this issue.

Mr. Comras, thank you for your many years of service.

This hearing is adjourned.

[Whereupon, at 3:30 p.m. the hearing was adjourned.]

A P P E N D I X

SUPPLEMENTARY INFORMATION FROM HALLIBURTON COMPANY

1. HPSL Office in Dubai

a. Senator Lautenberg displayed three FAXs at the hearing. Two of the three were sent in 1997 and one probably was sent in 1998 but all three are only partially legible. His request was that he wanted to know for whom the following people worked and whether they are U.S. nationals.

Mr. Proctor
Mr. McIntyre
Mr. Gooch

Senator LAUTENBERG. Did they work for the Cayman Islands subsidiary or the parent company? Were they U.S. nationals? One fax was addressed to Ian Gootz, another to a Mr. McIntyre, a third fax was to Mr. Procker—Proctor.

The three individuals mentioned in the FAXs and the subject of Senator Lautenberg's question are not U.S. citizens. Messrs. Proctor and Gooch were both employed by Halliburton Products and Services, Limited (HPSL) at the time of the FAXs. We believe that Mr. McIntyre was likely working for a U.K. subsidiary of Halliburton at the time of the FAXs. Mr. McIntyre had been at one time the manager of Otis International, Limited (OIL) before it became HPSL. According to the handwritten note on the FAX furnished by Senator Lautenberg, the correspondence was actively being transmitted on or about February 5, 1998. Our records indicate that Mr. McIntyre was the Corporate Secretary of HPSL on that date.

b. What was the location of the HPSL operating office (not registration office) in Dubai?

Ms. WILLIAMS. The Al Moosa Tower location that they went to is a registered office of a subsidiary, but none of the HPSL managers, none of the Board of Directors and none of the work for HPSL took place from that location . . . The HPSL office, where all of its operations and its employees were a completely separate location, and we would be happy to provide more detailed information on that to you or your staff.

Senator LAUTENBERG. No, the Halliburton Products and Services did at some point work out of that building.

Ms. WILLIAMS. Senator, I'm not sure about that answer. But I'd be happy to provide it later.

Senator LAUTENBERG. I would appreciate it because it directly contradicts your statement.

The registered Dubai address for HPSL was, has been, and remains at Al Moosa Tower. Since 1994, HPSL has maintained operations facilities in the following Dubai locations:

Nad Al Sheeba (office), Sheikh Rashid Plot, Dubai, UAE.

Al Quoz (storage location and cement-mixing plant), Al Quoz, Dubai, UAE.

Oilfield Supply Centre, B-15, Roundabout #8, Jebel Ali Free Zone, UAE.

The Al Moosa Tower address was never the operational home or address of HPSL. The Al Moosa Tower location was the home, for some period of time of a branch office of Halliburton Limited (HL) a U.K. corporation, and later of Halliburton Worldwide Limited (HWL), a company registered in the Cayman Islands.

2. Status of DOJ Investigation

a. "Senator LAUTENBERG. Is Halliburton still under investigation by the U.S. Attorney in the Southern District of Texas for possible violations of terrorist sanction law?"

Ms. Williams statement during the hearing was as follows: (Page 14 of the complete transcript provided to us, or page 53 of the partial transcript) “I think the investigation is ongoing. We have responded to all of the inquiries from the Department of Justice and we did that as late as 2005 and for the past 24 months, we’ve heard no additional information from them.” Her response to the question appears to answer the Senator’s question correctly and fully to our knowledge at this time. The last submission to the Department was in the Fall of 2005. We have not been notified as to whether the investigation is completed or still ongoing.

b. “Senator LAUTENBERG. And please—let us see if they receive subpoenas in this case.”

Regarding the Justice Department’s request for documents, a subpoena was issued only to the company and not to any individuals, either with respect to production of documents or to provide testimony. That subpoena has been complied with.

3. Your E-mail of May 14, 2007 re Questions From Senator Lautenberg

a. What activities and contracts is KBR currently executing in Iran?

According to information received from KBR, neither KBR nor any of its foreign subsidiaries is currently performing work in Iran. Two foreign subsidiaries (GVAC and MWKL) may have remaining contract issues or obligations on contracts under which they previously provided support to other companies doing work in Iran.

b. When did KBR receive its latest contract in Iran?

According to the information we have, the most recent contracts undertaken by any element of KBR relating to Iran were entered into in April 2004. KBR, and its subsidiaries maintain that they have not sought or received any contracts relating to work in Iran since the end of 2004.

c. Since September 11, 2001, what contracts did Halliburton win from the Government of Iran? What contracts did it execute in Iran? When did these contracts begin and end? What was the financial value of these contracts? Which economic sector did these contracts cover? Which U.S. companies were subcontractors to these contracts? Which non-U.S. companies were subcontractors to these contracts?

Answer:

Entity	Contract and Customer (all involving the oil and gas industry)	Approx. Value (\$ 000s)	Started	Completed	Completed Yes/No	Sub-contractors (all non-U.S.)
HPSL	IOOC Material Supply Contract	5,543	2001	End-2005	Yes	None
HPSL	Petropars/(Enterprise)	1,419	Pre-2001	June 2002	Yes	Frank’s International Middle East LLC; Drilling Tools International LLC; Geo Services S.A.
HPSL	Shell Exploration	348				None
HPSL	Statoil—South Pars	10,504	Q4–2003	End-2005	Yes	None
HPSL	POGC Integrated Services	16,285	Pre-2001	Q1–2006	Yes	Geoservices, S.A.; Pathfinder Energy Services B.V. ; Weatherford Oil Tool Middle East, Ltd.; Baker Hughes EHO Limited

Entity	Contract and Customer (all involving the oil and gas industry)	Approx. Value (\$ 000s)	Started	Completed	Completed Yes/No	Sub-contractors (all non-U.S.)
HPSL	Agip Iran BV—(ENI)	21,488	2002	June 2006	Yes	None
HPSL	Petro-Iran, (PEDCO)	27,700	2002	September 2006	Yes	None
HPSL	Total—South Pars	12,616	Q1–2002	November 2005	Yes	None
HPSL	Total—Dorood Kharg Island	44,717	Q2–2001	March 31, 2007	Yes	Al Ahlia Oilfields Development Company
HPSL	Norsk Hydro Anaran	12,183	Q4–2002	December 2006	Yes	None
HPSL	OOK–POGC †	0	N/A	N/A		None
HPSL	NIOC	18,977	Pre-2001	2006	Yes	None
HPSL	Kala	30,783	Pre-2001	2006	Yes	None
HPSL	Others—Misc.	12,705	Pre-2001	2006	Yes	None

† In 2004 and 2005, HPSL negotiated with OOK to perform services for POGC. A preliminary agreement was reached, but no contract for actual work was ever concluded. The project was later canceled, and no work was ever done.

